

NORTHWESTERN STATE UNIVERSITY



INVESTIGATIVE AUDIT
AUGUST 5, 2015

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LOUISIANA LEGISLATIVE AUDITOR
DARYL G. PURPERA, CPA, CFE

August 5, 2015

DR. JAMES “JIM” HENDERSON, PRESIDENT
NORTHWESTERN STATE UNIVERSITY
Natchitoches, Louisiana

We have audited certain transactions of Northwestern State University. Our audit was conducted in accordance with Title 24 of the Louisiana Revised Statutes to determine the validity of allegations we received.

Our audit consisted primarily of inquiries and the examination of selected financial records and other documentation. The scope of our audit was significantly less than that required by *Government Auditing Standards*.

The accompanying report presents our findings and recommendations as well as management’s response. This is a public report. Copies of this report have been delivered to the District Attorney for the 10th Judicial District of Louisiana and others as required by law.

Respectfully submitted,

Daryl G. Purpera, CPA, CFE
Legislative Auditor

DGP/aa

NWSU 2015

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EXECUTIVE SUMMARY

Public Funds Diverted to Non-University Bank Account

From August 28, 2008 through June 5, 2014, management of the Gulf States Regional Center for Public Safety Innovations (GSRCP) – a component unit of Northwestern State University (University) – diverted \$788,690 of revenue from management contracts and training workshops to a non-University bank account. Because these revenues were generated by University employees and others working on behalf of the University during the scope of their employment, they should have been treated as public funds and deposited into a University bank account. By depositing public funds into a non-University bank account, University employees may have violated the Louisiana Constitution, state law, and University policies and procedures.

Improper Payments Made from Non-University Bank Account

From November 21, 2013 to November 29, 2013, four individuals performing services for GSRCP received payments totaling \$16,000 from GSRCP's non-University bank account. Three of these individuals were employed by the University and one was an employee of the Town of Many on loan to the University. State law prohibits public employees from receiving anything of economic value, other than compensation and benefits from the governmental entity to which they are duly entitled, for the performance of their duties and responsibilities. By receiving extra compensation from a private source, these individuals may have violated state law.

Improper Contractual Arrangements

From February 17, 2009 to November 18, 2013, GSRCP entered into contractual arrangements with the spouse of GSRCP Director, Daphne Levenson. As a result of these contractual arrangements, GSRCP issued payments totaling \$40,967 to Ms. Levenson's spouse in possible violation of state law.

BACKGROUND AND METHODOLOGY

Northwestern State University (University) is a publicly-supported institution of higher education. The University is a component unit of the state of Louisiana, within the executive branch of government, and is under the management and supervision of the University of Louisiana System's Board of Supervisors. The University is located in Natchitoches, Louisiana, and serves as a cultural and educational center for central and northwest Louisiana.

In 1997, the Louisiana Community Policing Institute (LCPI) was established at Louisiana State University-Shreveport with funding from the United States Department of Justice's Office of Community Policing Services as part of a national network of Regional Community Policing Institutes. In 2002, LCPI was transferred to the University and was later renamed the Gulf States Regional Center for Public Safety Innovations (GSRCP). GSRCP was a component unit of the University and was not a distinct legal entity. GSRCP operated under the University's Criminal Justice Department and was staffed by University employees and Town of Many (Town) police department employees loaned to GSRCP through cooperative endeavor agreements (CEAs) between the University and the Town.

GSRCP was funded primarily through federal and state grants awarded to the University. Grant funds were deposited into a University bank account subject to University policies and procedures. Pursuant to these grant awards, GSRCP conducted law enforcement training workshops facilitated by University and Town employees and independent contractors working for GSRCP.

Our audit was initiated based on allegations provided by the Office of the State Inspector General (OIG) and conducted in partnership with OIG. The purpose of the audit was to determine whether University funds paid to the Town under the CEAs were spent appropriately and in compliance with grant requirements and the CEAs. The procedures performed during this audit included:

- (1) interviewing University employees;
- (2) interviewing other persons, as appropriate;
- (3) examining selected University documents;
- (4) gathering and examining external parties' documents and records; and
- (5) reviewing applicable state and federal laws and regulations.

FINDINGS AND RECOMMENDATIONS

Public Funds Diverted to Non-University Bank Account

From August 28, 2008 through June 5, 2014, management of the Gulf States Regional Center for Public Safety Innovations (GSRCPi) – a component unit of Northwestern State University (University) – diverted \$788,690 of revenue from management contracts and training workshops to a non-University bank account. Because these revenues were generated by University employees and others working on behalf of the University during the scope of their employment, they should have been treated as public funds and deposited into a University bank account. By depositing public funds into a non-University bank account, University employees may have violated the Louisiana Constitution,¹ state law,² and University policies and procedures.

From 2003 to 2013, the University entered into a series of cooperative endeavor agreements (CEAs) with the Town of Many (Town). Under the CEAs, the Town loaned police department employees to GSRCPi on a full-time basis. During this period, GSRCPi was a component unit of the University's Department of Criminal Justice and was funded through state and federal grants to conduct training workshops for law enforcement personnel. Grant funds received for GSRCPi activities were deposited into a University bank account subject to University fiscal policies and procedures. These policies and procedures prohibit full-time employees from exercising any authority over bank accounts of funds of student organizations, clubs, groups, and other organizations affiliated with the University. As such, funding for all of GSRCPi's activities, including self-generated revenues, was required to be processed through the University's Accounting Department.

Public Funds Diverted to Non-University Bank Account

Beginning in 2007, GSRCPi contracted with the Alabama Association of Chiefs of Police (AACOP) to provide management and training services for AACOP. The University could not provide a written contract between the University and the AACOP authorizing GSRCPi to perform these services. According to records and statements from GSRCPi staff, University and Town employees loaned to the University performed the management and training services for the AACOP contract. Although University and Town employees performed these services, GSRCPi set up a non-University checking account in August 2008 to account for the AACOP contract and other self-generated revenues. Because University and Town employees working for GSRCPi generated these revenues through work performed for the University, these funds should have been treated as public funds and deposited into a University bank account subject to the University's fiscal policies and procedures.

GSRCPi's non-University bank account was maintained by Project Celebration, Inc., a non-profit corporation domiciled in Many, Louisiana. Records obtained from Project Celebration indicate that GSRCPi funds totaling \$788,690 were deposited into this bank account between August 28, 2008 and June 5, 2014. GSRCPi staff provided invoices and receipts to Project Celebration and directed Project Celebration staff to make payments from this account.

Expenses paid from the account included travel expenses, materials and supplies, payments to training instructors, and payments to the Town for employees loaned to GSRCP. Although Project Celebration was not able to provide supporting documentation for all of GSRCP's expenses, our analysis of available records and supporting documentation indicates that expenses paid from the account fell into seven broad categories, illustrated below:

GSRCP Expenses Paid from Non-University Bank Account	
Type of Expense	Amount of Payment
Labor Costs	\$297,026.79
Travel and Expense Reimbursements	204,412.22
Payments to University	160,528.39
Fiduciary Fees to Project Celebration	26,435.48
Contracted Services	30,434.02
Materials and Supplies	12,790.73
Miscellaneous Expenses	57,061.96
Total	\$788,689.59

The majority of the expenses from GSRCP's non-University account were labor and travel expenses. The labor expenses were paid to GSRCP employee Victoria Simmons, Town employees Adrian Bramblett and Rebecca Murley, and Project Celebration employee Mike Murphy. These employees provided management and administrative support services pursuant to GSRCP's contracts with AACOP and other public entities and non-profit organizations. None of these employees performed work for the University and one individual, Adrian Bramblett, lived in Alabama. Project Celebration also paid the travel expenses of these employees and other GSRCP employees and contractors who worked on these contracts, including GSRCP Director Daphne Levenson and GSRCP Assistant Director Pauline Snell. The travel expenses included reimbursement for mileage, meals, parking, and related costs associated with servicing clients in Louisiana, and other states. Most of the out-of-state travel was made to Alabama where GSRCP's largest client, AACOP, was based. However, account records show travel to other states, including South Carolina and Mississippi.

University employee and GSRCP Director Daphne Levenson stated that she authorized creation of GSRCP's non-University account to pay expenses that could not be paid from University funds, such as hotel rates that exceeded the amounts allowed by the University's procurement policy. Ms. Levenson confirmed that University employees and Town employees loaned to GSRCP performed management and training services for AACOP, but stated that these labor costs were supposed to be tracked and reimbursed to the University. Ms. Levenson stated that when she realized the University had not been reimbursed for these labor costs, she transferred the balance remaining in the non-University account to the University. Project Celebration records indicate the GSRCP bank account was closed on June 30, 2014.

University policy requires all full-time employees to sign a bank account certification form on an annual basis to disclose bank accounts for which they have authority over funds of student organizations, clubs, groups, and other organizations affiliated with the University. According to University records, Ms. Levenson completed the form in April 2013 but did not disclose the existence of GSRCP's non-University bank account.

By depositing public funds into a non-University bank account and using University employees and Town employees loaned to GSRCPi to fulfill obligations under its contract with AACOP, GSRCPi management may have violated the Louisiana Constitution,¹ state law,² and the University's fiscal policies and procedures.

Improper Payments Made from Non-University Bank Account

From November 21, 2013 to November 29, 2013, four individuals performing services for GSRCPi received payments totaling \$16,000 from GSRCPi's non-University bank account. Three of these individuals were employed by the University and one was an employee of the Town on loan to the University. State law prohibits public employees from receiving anything of economic value, other than compensation and benefits from the governmental entity to which they are duly entitled, for the performance of their duties and responsibilities. By receiving extra compensation from a private source, these individuals may have violated state law.³

During our review of the non-University bank account utilized by GSRCPi to account for self-generated revenues (see previous finding), we noted payments issued to the following individuals:

- \$4,000 – Daphne Levenson, University employee
- \$4,000 – Leora Thomas, University employee
- \$4,000 – Victoria Simmons, University employee
- \$4,000 – Rebecca Murley, Town of Many employee

According to GSRCPi records, these payments were made in November 2013. Each check indicated that it was written for "Contract/Consulting;" however, there was no documentation to support the purpose of the payments.

Ms. Levenson, Ms. Thomas, and Ms. Simmons were University employees responsible for overseeing University grants associated with GSRCPi's activities. Ms. Murley was a Town employee on loan to the University to perform services for GSRCPi, and was paid by the Town. Ms. Levenson stated that declines in grant funds forced her to institute furloughs and reduce pay for certain employees. Ms. Levenson explained that she made these \$4,000 payments from the non-University bank account because the account had excess funds that had not yet been transferred to GSRCPi's University bank account. Ms. Levenson claimed this was appropriate because if the funds had been transferred, there would have been less need for furloughs and pay reductions for GSRCPi employees.

Louisiana Revised Statute (La. R.S.) 42:1111(A)(1) provides in part, that "[n]o public servant shall receive anything of economic value, other than compensation and benefits from the governmental entity to which he is duly entitled, for the performance of the duties and responsibilities of his office or position...." Although furloughs and pay reductions may have applied to employees paid directly with GSRCPi funds, Ms. Levenson, Ms. Thomas,

Ms. Simmons, and Ms. Murley were public employees compensated by public entities at the time they received \$4,000 payments from GSRCP's non-University bank account. From our conversation with Mr. Joe Morris, a faculty member in the University's Criminal Justice Department that oversaw GSRCP, it appears that all services performed by GSRCP employees were performed on University time. As such, they appear to have been prohibited from receiving additional compensation. By receiving additional compensation from a private source, Ms. Levenson, Ms. Thomas, Ms. Simmons, and Ms. Murley may have violated state law.³ In addition, by paying additional compensation to herself and others, Ms. Levenson may have violated the Louisiana Constitution¹ and state law.²

Improper Contractual Arrangements

From February 17, 2009 to November 18, 2013, GSRCP entered into contractual arrangements with the spouse of GSRCP Director, Daphne Levenson. As a result of these contractual arrangements, GSRCP issued payments totaling \$40,967 to Ms. Levenson's spouse in possible violation of state law.⁴

Records indicate that Ms. Levenson's husband, Harry Levenson, was paid a total of \$40,967 to perform training services for GSRCP from February 17, 2009 to November 18, 2013. This amount included payments totaling \$26,882 issued directly to Mr. Levenson from the University and payments totaling \$14,085 issued to Mr. Levenson and companies operated by Mr. Levenson from GSRCP's non-University bank account. These payments were made pursuant to professional service contracts between the University and Mr. Levenson to facilitate training workshops for GSRCP.

Ms. Levenson was the GSRCP Director at the time these payments were made and stated that she was aware of the ethical prohibition against payments to family members. Ms. Levenson stated that her husband worked as a trainer for GSRCP prior to their marriage. She stated that she brought this potential ethical problem to the attention of the United States Department of Justice and was informed that since the relationship was pre-existing, there was no ethical problem. Although the contractual relationship between the University and Mr. Levenson was pre-existing, dating back to at least 2007, Mr. Levenson's services were detailed in an annual contract that expired during Ms. Levenson's tenure. By allowing GSRCP to enter into a new contract with her husband while she was Director, Ms. Levenson may have violated state ethics laws.

State law prohibits public employees from entering into transactions with immediate family members. Because Ms. Levenson was responsible for overseeing and managing GSRCP funds, she was prohibited from entering into contractual arrangements with immediate family members. As a result, Ms. Levenson may have violated state ethics laws.⁴

Recommendations

We recommend that the University:

- (1) require employees to certify they have not diverted University funds into a non-University checking account;
- (2) seek legal advice regarding the appropriate actions to be taken related to the payment of \$16,000 to University and Town employees;
- (3) require employees to certify they have not improperly contracted with a University-affiliated organization in violation of state law;
- (4) consult with legal counsel and the Louisiana Board of Ethics on the legality of contractual arrangements with family members of University staff; and
- (5) adopt detailed policies and procedures, including requiring all employees to complete the annual ethics training in accordance with La. R.S. 42:1170 and prohibiting employees from entering into transactions and contractual arrangements with family members.

LEGAL PROVISIONS

¹ **Louisiana Constitution Article VII, Section 14(A)** provides, in part, that “Prohibited Uses. Except as otherwise provided by this constitution, the funds, credit, property, or things of value of the state or of any political subdivision shall not be loaned, pledged, or donated to or for any person, association, or corporation, public or private.”

² **La. R.S. 42:1461(A)** states, “Officials, whether elected or appointed and whether compensated or not, and employees of any ‘public entity,’ which, for purposes of this section shall mean and include any department, division, office, board, agency, commission, or other organizational unit of any of the three branches of state government or of any parish, municipality, school board or district, court of limited jurisdiction, or any other political subdivision or district, or the office of any sheriff, district attorney, coroner, or clerk of court, by the act of accepting such office or employment assume a personal obligation not to misappropriate, misapply, convert, misuse, or otherwise wrongfully take any funds, property, or other thing of value belonging to or under the custody or control of the public entity in which they hold office or are employed.”

³ **La. R.S. 42:1111(A)(1)** states, in part, that “No public servant shall receive anything of economic value, other than compensation and benefits from the governmental entity to which he is duly entitled, for the performance of the duties and responsibilities of his office or position...”

⁴ **La. R.S. 42:1112 (B)** states, in part, “No public servant, except as provided in R.S. 42:1120, shall participate in a transaction involving the governmental entity in which, to his actual knowledge, any of the following persons has a substantial economic interest: (1) Any member of his immediate family.”

La. R.S. 42:1113(A)(1)(a) states, “No public servant, excluding any legislator and any appointed member of any board or commission and any member of a governing authority of a parish with a population of ten thousand or less, or a member of such a public servant’s immediate family, or legal entity in which he has a controlling interest shall bid on or enter into any public contract, subcontract, or other transaction that is under the supervision or jurisdiction of the agency of such public servant.”

APPENDIX A

Management's Response



July 1, 2015

Daryl G. Pupera, CPA, CFE
Louisiana Legislative Auditor
Post Office Box 94397
Baton Rouge, Louisiana 70804-9397

RE: Response to Investigative Audit Report

Dear Mr. Pupera:

Northwestern State University concurs with the three findings included in your investigative audit report.

Northwestern currently has the recommended policies and procedures in place, but management will ensure they are adequately communicated and monitored and that the policy objectives are achieved. The University will consult with legal counsel on the appropriate actions to take regarding the possible repayment of the funds that may have been improperly received by the identified parties. Finally, upon the issuance of the investigative audit report, we will submit the report to the Louisiana Board of Ethics for review.

Thank you for your consideration during this time of transition for Northwestern State University. Please do not hesitate to contact me if I can be of further assistance.

Sincerely,

Dr. James B. Henderson
President

JBH/pc

APPENDIX B

Other Responses

July 1, 2015

Daryl G Purpera, CPA, CFE
Louisiana Legislative Auditor
Post Office Box 94397
Baton Rouge, LA 70804-9397

Dear Mr. Pupera,

Thank you and your office for the investigation into this confusing matter. Your staff, particularly Mr. Duty, has been very professional and thorough throughout this lengthy process. I am truly sorry I didn't watch finances more carefully and entrusted people who I should not have, both above and below me. Although most of what I received in the 6 pages of the report applying to me is accurate, there is 3 opportunities for a more factual depiction. They are listed below:

Public Funds Diverted to Non-University Bank Account

The report states: "University policy requires all full-time employees to sign a bank account certification form on an annual basis..."

This form was completed every year by every full time GSRCPPI University employee, including myself. No University employee had access to, responsibility for deposits or directing expenses for this account. Joe Morris and I were aware of the creation and use of the account. This account was created, monitored and maintained solely at the discretion of Polly Snell (not a University employee) until her termination in 2013, at which time this account came under my direct responsibility and was disclosed to the university in accordance with university policy through the aforementioned form. I closed the account after transferring the balance to the university.

Improper Payments Made From Non-University Bank Account

The report state: "From our conversations with Mr. Joe Morris... it appears that all services performed by GSRCPPI employees were performed on University time."

This compensation was not 'additional' for work already paid for through the university and town. This work was not completed on university time. Having been told that we were running out of money, all GSRCPPI employees were placed on a furlough of one day without pay per week (effectively a 20% reduction in pay) for more than a year. During this time, on nearly all of the days where Leave Without Pay from the University was taken, GSRCPPI employees Levenson, Murley, Simmons, and Thomas continued to complete work for the organization and were not compensated. Upon finding out the actual amount of funds remaining in the non-university account, the decision was made

to retroactively compensate Levenson, Murley, Simmons, and Thomas for some of the work conducted during this time. Equal compensation was provided to each of these employees although this in no way reflected true amounts owed.

Improper Contractual Arrangements

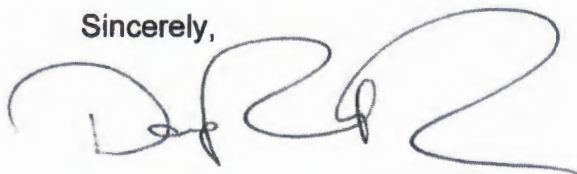
The report states: "{Levenson} was prohibited from entering into contractual arrangements with immediate family members."

While this was a concern during initial set-up of LCPI/GSRCPI at the University, as noted in the report, I "brought this potential ethical problem to the attention of the United States Department of Justice and was informed that... there was no ethical problem."

There was no time limit or expiration date stated by the DOJ on the continued contracting with Henry Levenson nor was any concern or possible violation ever expressed to me by the University about the continuation of or establishment of any new contracts with him.

Please do not hesitate to call me with ANY questions! This has been the longest most horrible 2 years of my life and I cannot wait for it to be over.

Sincerely,



Daphne Levenson



Leora Thomas

3917 High Pointe Dr | Ruston, LA 71270
318-663-2051 Cell | leorathomas@gmail.com



June 29, 2015

Daryl G Purpera, CPA, CFE
Louisiana Legislative Auditor
Post Office Box 94397
Baton Rouge, LA 70804-9397

Dear Mr. Purpera,

Thank you for ensuring I receive a copy of the sections of this draft report which directly concern me. I would like to respond to one section of this report regarding "improper payments made from a non-university bank account". I do not dispute that I received a \$4,000 payment from this account in November 2013. However, the report implies that this amount was received as "additional compensation from a private source" for work I was paid for by the University. This is not the case. I received this compensation for work I completed while on Leave Without Pay (LWOP) from the university. This compensation was back-paid to me for time I worked during a furlough period at GSRCP. From November 2010 through March 2012, I took off one day per week without pay from the University during which I did complete uncompensated work for GSRCP. If you have further questions regarding this, I will be happy discuss it with you at your convenience.

You may reach me via cell at 318-663-2051 or email me at leorathomas@gmail.com.

Thank You,

Leora Thomas



To : Gary Duty, Office of the Legislative Auditor

Thank you for contacting me about the report I received. I did not know this was an ethics violation, as the compensation I received was from my employer, as far as I knew. I did not consider that the funds from the Public Safety Training account could be considered a private source. GSRCPPI had several accounts that they received funds into and paid expenses from. I was told by my boss (Daphne Levenson) that I was receiving compensation for work I had done while on furlough. I was paid, to my knowledge, by GSRCPPI, my employer.

Thank you,
Vickie Simmons

Mr. Duty,

As per our conversation, I am sending a response to the letter received in reference to the above subject line. As an employee of the Town of Many, I did not sign any forms stating that I would not receive any compensation from other sources. I do not believe the \$4,000.00 that I received was in violation of any sort but only compensation for being put on furlough while working for GSRCPi as per my Supervisor, Daphne Levenson. Money received was claimed on taxes and taxes were paid.

Sincerely,
Rebecca H. Murley